Michigan Legal Services

Anti-poverty Advocates

May 22, 2013

Representative Jeff Farrington
Chair, Tax Policy Committee
Michigan Housing of Representatives

Dear Representative Farrington and Tax Policy Committee Members:

I am writing in strong support of HB 4409 which provides discretion to local county treasurers to reduce penalty interest from 18% to 12% for homeowners in property tax arrears.

For the past decade, our offices have operated a joint Tax Foreclosure Prevention program with the United Community Housing Coalition, in an effort to prevent homeowners in the Detroit from losing their homes to tax foreclosure. In the first year of the project, there were 1800 owner occupied homes in tax foreclosure. This year, there are 42,000 parcels in foreclosure in Wayne County, with the majority of owner-occupied homes in foreclosure in Detroit. As the scope of the problem has grown, the tools available to address the problem remain limited. For example, assistance from the State Department of Human Services for low income families is capped at $2,000 in a life-time to stop a foreclosure and not available when the total amount in tax arrears exceeds that amount. Similarly, one-year hardship extensions to pay the forecloseable taxes under the property tax statute are available for one year, but not renewed if the previous extension has not been paid. With a penalty interest of 18% (1 and ½ percent per month) charged on delinquent taxes, these fees can easily exceed base tax amounts and eventually push the debt out of reach of homeowners struggling to save their homes. In distressed communities, the result is foreclosure, families forced out of their homes and local governments and communities struggling with the blight that accompanies vacant properties which are frequently stripped and subject to vandalism. As these properties become worthless, they affect all homeowners, driving down property values across the county. Also, the county is not able to recoup its losses in the auction process since the properties sell, if at all, for far less than the taxes owed. The problem is not manageable without some method for addressing the size of the debt and the 18% penalty interest rate is a good place to start. Such interest rates when charged by credit card companies and banks are generally considered "predatory". They are no less so when the government charges this rate.

The bill before you very reasonably provides discretion to local treasurers to enable them to determine when a reduction in the penalties from 18% to 12% makes sense in order to keep a family in its home. County treasurers who do not choose to utilize this tool, are not required to. However, it is available to those operating in distressed communities, struggling with cascading numbers of tax foreclosures with redemption amounts out of reach for large numbers of low

220 Bagley, Suite 900
Detroit, MI 48226-1400

ph: 313-964-4130
fx: 313-964-1192

www.milegalservices.org

income homeowners (homeowners who, by the way, would have qualified for poverty reductions from their tax obligations had their local boards of review advertised the availability of the program. Once the tax year has passed, those eligible for poverty reductions who did not obtain them, cannot apply. Three years later they face foreclosure and the loss of their homes for taxes which should have been reduced. Under these circumstances, it certainly does not make sense to take their homes for taxes they should not have owed, but makes even less sense to add to the debt they must now struggle to pay with an 18% penalty interest.

The bill here does not provide absolute discretion to treasurers to waive the penalty interest altogether. Instead the discretion is limited to a reduction of the penalty interest by 6 points. Presumably a local treasurer would apply this remedy only in cases where it will make a difference and enable the family to stay in their home.

Some might argue that with the new Step Forward MSDHA program which will now assist some families in tax foreclosure, there is no need for the remedy provided by this bill. However, the MSHDA funds are not available for all households in foreclosure, including for example, those purchasing their homes on land contracts which is generally the case for many low income families who are not able to obtain loans to purchase their homes because of income or credit issues.

I urge you to act now to pass this bill. It does not compel any county treasurers to provide this relief if in their best judgment, it does not make sense for their local communities. However, it will provide a useful tool for county treasurers with few other options for resolving foreclosures to enable families to stay in their homes and pay their taxes.

Thank you for the opportunity to address the committee on this important bill.

Sincerely,

Marilyn Mullane
Executive Director